

<p align="center">2003-2004 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund

The Sewer Service and Use Charge Capital Improvement Fund receives a \$16 million annual transfer from the Sewer Service and Use Charge Operating Fund. These funds are used for the reconstruction of the Sanitary Sewer System.

***Sewer Service and
Use Charge Capital
Improvement Fund***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 26,638	\$ 27,314	\$ 676	2.5%
<i>Expenditure</i>	66,386	49,127	\$ 17,259	26.0%
<i>Fund Balance (est. *)</i>	12,285 *	21,838	\$ 9,553	77.8%

The positive revenue variance of \$676,000 is the result of higher than budgeted interest collections.

The \$17.3 million positive variance in expenditures is primarily attributed to lower than estimated project expenditures. Of this amount, \$8,172,000 was rebudgeted and \$131,000 was reprogrammed in the 2004-2005 Adopted Capital Budget. The majority of the remaining expenditure savings are recommended for rebudget as part of this Annual Report. The following is a list of major unexpended projects (\$000's):

Miscellaneous Rehabilitation Projects	\$ 3,725
84" RCP Interceptor	3,505
Infiltration Reduction	2,586
60" Brick Interceptor	2,547
Hester-Naglee Area	962
San Tomas Aquino Creek Trunk	857
Fourth Ward Area	851
Trimble-Morrill Sewer	827
Third Ward Area	<u>819</u>
Total	\$ 16,679

The following is an explanation of project variances:

- Miscellaneous Rehabilitation Projects – Savings in this category, designated for emergency pipe repair or rehabilitation, resulted because these funds were not needed in 2003-2004. A rebudget of \$2.5 million was included in the 2004-2005 Adopted Capital

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

Budget to fund scheduled and unanticipated repairs. The rebudget of an additional \$1.1 million is recommended in this document for 2004-2005.

- 84" RCP Interceptor – Construction on Phase V is currently in progress and will continue into 2004-2005. A portion of the savings (\$700,000) was rebudgeted in the 2004-2005 Adopted Capital Budget for ongoing design and contract award. Additional project savings of \$2.8 million is recommended for rebudget to 2004-2005.
- Infiltration Reduction – Cost savings in this category, designated for responses to infiltration and inflow into the sewer system, resulted because these funds were not needed in 2003-2004. A rebudget of \$1.75 million was included in the 2004-2005 Adopted Capital Budget to fund anticipated infiltration and inflow projects. The rebudget of the remaining savings (\$836,000) is recommended in this document.
- 60" Brick Interceptor – Phase IB was awarded and construction is set to begin in 2004-2005. The rebudget of the remaining savings (\$2.5 million) is recommended in this document to fund the continuation of this project into 2004-2005.
- Hester-Naglee Area – This project was completed in June 2004. Funding of \$465,000 was rebudgeted for 2004-2005 as part of the Adopted Capital Budget to fund the closeout of this project. A portion of these savings (\$10,000) is recommended for rebudget to 2004-2005. The remaining savings in this project (\$487,000), resulting from a lower than expected contract award, will be available to be programmed for future projects.
- San Tomas Aquino Creek Trunk – Project savings resulted from the continuation of this project into 2004-2005. A portion of the savings (\$700,000) was rebudgeted in the 2004-2005 Adopted Capital Budget for ongoing design and contract award. The remaining savings (\$157,000) is recommended for rebudget to 2004-2005 in this document.
- Fourth Ward Area – Project savings resulted from the continuation of this project into 2004-2005. Funding of \$896,000 was rebudgeted in the 2004-2005 Adopted Capital Budget, however this project did not meet sufficient savings to cover the amount programmed in the 2004-2005 Adopted Capital Budget. As a result, a budget reduction of \$45,000 is recommended in this document.
- Trimble-Morrill Sewer – Project savings resulted from the continuation of this project into 2004-2005. Funding of \$200,000 was rebudgeted in the 2004-2005 Adopted Capital Budget. The remaining savings (\$627,000) is recommended for rebudget to 2004-2005 in this document.

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

- Third Ward Area – Project savings resulted from the continuation of this project into 2004-2005. Funding of \$796,000 was rebudgeted in the 2004-2005 Adopted Capital Budget. The remaining savings (\$23,000) is recommended for rebudget to 2004-2005 in this document.

The remaining \$581,000 variance involves a number of projects with less than \$300,000 in unexpended funds, and is largely attributed to delays in project awards.

Additional rebudgets totaling \$206,000 for 2004-2005 are included in this document for the following projects: 60" Reinforced Concrete Pipe (\$91,000); East San José (\$35,000); Monterey-Riverside Sewer (\$28,000); Forest-Rosa Sewer (\$17,000); Edenvale Sanitary Sewer Supplement Phase V (\$15,000); Geographic Information Systems (\$10,000); and Public Works Engineering Services Equipment (\$10,000).

The 2003-2004 ending fund balance variance (\$9.6 million) reflects the combination of higher than expected interest collections and lower than estimated expenditures. As previously described, the majority of the expenditure savings (\$8.3 million) will be rebudgeted to complete projects in 2004-2005.